THE MANITOBA SECURITIES COMMISSION

ANNUAL REPORT 1999-2000

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100-07562/

Minister of
Consumer and Corporate Affairs

Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

The Honourable Peter M. Liba, C.M.
Lieutenant Governor of Manitoba
Room 235, Legislative Building
Winnipeg MB R3C 0V8

May it Please Your Honour:

I have the privilege of presenting for the information of your Honour the First Annual Report of The Manitoba Securities Commission for the fiscal year ended March 31, 2000.

Respectfully submitted,

Honourable Ron Lemieux
Minister

THE MANITOBA
SECURITIES
COMMISSION

September 25, 2000

Honourable Ron Lemieux
Minister of Consumer and Corporate Affairs
Room 314 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Mr. Minister:

I have the honour to submit for your consideration the First Annual Report of The Manitoba Securities Commission for the fiscal year ended March 31, 2000.

Respectfully submitted,

Donald G. Murray
Chairman
The Manitoba Securities Commission

CHAIRMAN'S REPORT

The past year has seen many changes and advances for the Commission.

S.O.A.

This past year was the Commission's first year operating as a special operating agency. The enhanced level of autonomy in S.O.A. status allowed the Commission to increase its staff complement, as it is developing programs and set up its reserve fund in order to more completely fulfil its mandate.

New Programs

The provision of educational and information services to both the public and the members of the industry is seen by the Commission as pivotal to achieving its mandate. A multi-faceted education program has been a new initiative this year for the Commission spearheaded by our Coordinator of Education and Information. The Education Program has been an unqualified success at its early stages and continues to develop. Special thanks are due to Commission staff and industry members who have volunteered countless hours in the development and delivery of educational materials and presentations.

The Commission's web site is new this year and has proven popular to members of the public and industry participants alike. It provides a valuable information source as well as a tool for education and includes a youth section as well as links to other useful sites. As we continue to develop and expand our web site the number of "hits" continues to increase monthly.

The Commission acquired the services of a full time auditor this past year and a regular ongoing field audit program has been developed for the first time. The function of the program is for the Commission to be proactive in the area of compliance and to provide guidance to registrants where problems become evident. The program has been well received by the industry.

The Winnipeg Commodity Exchange (WCE)

As of February 1, 2000, the Commission assumed regulation of the WCE, formerly regulated by the Canadian Grain Commission. Prior to the change, Commission and Exchange staff worked together in the development of rules and registration categories. The implementation of the new regulatory regime will be in a transitional period until November 2000. The Commission looks forward to a long and mutually beneficial relationship with the Exchange and its members.

Donald G. Murray
Chairman

National Initiatives

The Commission continues to work with other members of the Canadian Securities Administrators (CSA) in the national coordination of securities regulation. Mutual reliance has proven a success in the move toward a seamless national system based on cooperation between provincial and territorial regulators. The Commission has representation on numerous CSA committees and continues to expand its role in the development of National Instruments and Rules.

This past year has also seen the founding of the Joint Forum, a cooperative effort between securities regulators and regulators in other financial sectors. The Commission looks forward to playing a continuing role as the regulation of securities and other financial services moves toward harmonization.

Real Estate

The Real Estate section of the Commission regulates a mature industry undergoing less radical changes than those experienced in the securities area. The Registrar and his staff continue to perform an exemplary job of industry regulation, including registration, audit and compliance as well as playing the role of partner with industry practitioners and their Associations in the development of rules, policies, courses and new initiatives. The Registrar is also responsible for placement of interest from brokers' trust accounts, part of the proceeds of which are used to finance the revitalization of housing in the inner city. The Real Estate section of the Commission has developed and maintains a positive relationship with the industry.

Advisory Committees and Focus Groups

It is important to acknowledge the great deal of hard and valuable work volunteered by the members making up the advisory committees in both areas of securities and real estate (noted on pages 8, 9 and 10). The input and assistance of these individual members is of great importance to the Commission.

Commission Members

There were no changes to the Commission membership this year. Sincere thanks are due to the six part time Commissioners for their continued efforts in the conduct of regular and special meetings and hearings. Their knowledge of the securities and real estate industries, developed through their individual professional endeavors and their commitment to the job at hand is essential to the fulfillment of the Commission's mandate.

Donald G. Murray
Chairman
July 31, 2000

PART 1 - COMMISSION OVERVIEW

The Manitoba Securities Commission ("the Commission") is responsible for administering and enforcing *The Securities Act, The Real Estate Brokers Act, The Mortgage Dealers Act* and *The Commodity Futures Act*. The Commission was structured in its present form in 1968 as set out in *The Securities Act*. The Commission became a Special Operating Agency on April 1, 1999

The Commission consists of a maximum of seven order in council appointments. Commission members meet regularly (usually weekly) to deal with policy and regulatory formulation, applications seeking exemptions from the requirements of regulation, and to consider whether it is in the public interest to grant various types of orders authorized by legislation. Commission members also perform a quasi-judicial function by sitting as adjudicators in Commission hearings.

The administrative arm of the Commission is made up of full time employees who conduct day-to-day operations. The functional arm of the Commission is comprised of two operating divisions: the Securities division and the Real Estate division.

The Chairman conducts meetings of Commission members and in many cases sits as adjudicator on hearings. The Chairman is the Chief Executive Officer of the functional arm of the Commission. A management committee meets regularly at the call of the Chairman to provide management direction. The management committee is comprised of the Chairman, the Director of Capital Markets and Chief Administrative Officer, and the Director of Legal & Enforcement and Secretary to the Commission.

The Chairman of the Commission reports to the legislature through the Minister of Consumer and Corporate Affairs.

MISSION

The mission of The Manitoba Securities Commission is to protect and promote the public interest by facilitating dynamic and competitive capital and real estate markets that contribute to the economic development of Manitoba while fostering public confidence in those markets.

Mandate

The mandate of the Commission is to act in the public interest to protect Manitoba investors and to facilitate the raising of capital while maintaining fairness and integrity in the securities marketplace. Similarly, its real estate industry mandate is to regulate brokers, salespeople and mortgage dealers to ensure adequate standards are maintained for the protection of the public.

The Commission is able to fulfill both the mission and the mandate through functions that are performed in the following seven areas:

Registration – The Commission processes and evaluates applications for registration to permit individuals and companies to sell securities, commodities contracts and real estate or to deal in mortgages. In addition the Commission sets standards of conduct required for persons and companies to maintain registration.

Corporate Finance and Continuous Disclosure – The filing of prospectuses, financial statements, insider reports and other filings made by public companies with the Commission is intended to provide the public with the information necessary to make informed investment decisions. The Commission sets standards for public filings and monitors what is filed. The Commission can also issue cease trade orders in the event a public company fails to file any documentation required.

Private Placement and Exempt Offerings - In many situations securities may be traded to the public without a prospectus and sold without the salesperson being registered with the Commission. *The Securities Act*, regulations and rules describe how and when these exemptions are available.

Exemptions and Orders – The Commission receives and processes applications for exemptions from one or more of the requirements of securities regulation. As the number and variety of securities products and organizations trading in securities increases, the Commission issues exemption orders to ensure the public is not denied access to new products and services.

Legislation and Policy Development – The Commission is responsible for the development and implementation of policies and rules. The Commission also advises government on legislative changes. Commission staff work with industry representatives, government agencies, advisory groups and other securities regulators to coordinate and develop policies and rules. Commission members are responsible to review and determine whether a proposed policy, rule or legislation is in the public interest and consistent with the mandate of the Commission.

Investigation and Enforcement – In order to ensure public confidence in securities and real estate markets it is necessary to have an effective system to investigate possible violations and to enforce the legal requirements set out in legislation and regulation. Commission staff review and investigate complaints alleging improper and illegal activities. The Commission also conducts proactive compliance reviews to identify potential problems before the public is harmed. Commission staff also prepare and present cases at hearings before the Commission and in prosecutions in court.

Education and Information – Providing educational information to both the investing public and individuals working within industries regulated by the Commission is an effective way to encourage compliance with the requirements of regulation. Members of the public who are informed are less likely to fall victim to illegal activities and more likely to understand their rights.

The Members

Donald G. Murray (Chairman) - Appointed to the Commission in 1993, Mr. Murray spent 20 years in the private practice of law. In 1994, he was appointed Vice Chairman and became Chairman in 1997.

Elmer O.E. Bergman - Appointed to the Commission in 1990, Mr. Bergman has a Bachelor of Commerce and Chartered Accountant designation. He retired from KPMG as a partner of the firm. Prior to KPMG, Mr. Bergman was the office-managing partner in Winnipeg with Thorne Ernst & Whinney. Mr. Bergman was active in the securities areas and also acted as an advisor for utility rate-making for the Public Utilities Board.

W. John A Bulman C.M. - Appointed to the Commission in 1994, Mr. Bulman spent must of his business career in the printing industry. He is an active community leader especially with health and education groups. He is currently Chancellor Emeritus of the University of Winnipeg and a council member of the Royal College of Physicians and Surgeons. Mr. Bulman was appointed to the Order of Canada in 1999.

Melvin S. Fages - Appointed to the Commission in 1997, upon retiring from Deloitte & Touche, Chartered Accountants. Mr. Fages received his F.C.A. designation in 1997. Currently, he is the Vice-President of the Long Term Care Association of Manitoba, Treasurer of the Jewish Foundation of Manitoba and a Board Member of the Alzheimer Society of Manitoba.

Ken S. Kristjanson - Appointed to the Commission in March 1999, Mr. Kristjanson has 40 years experience in the financial services industry, the last 30 years being spent as a full-service broker. He retired from Richardson Greenshields where he held the position of Vice-President. He is Vice-Chairman of the Canada-Iceland Foundation.

Lynne M. McCarthy - Appointed to the Commission in 1994, Ms. McCarthy has a Master of Business Administration degree from the University of Western Ontario and the Chartered Financial Analyst designation. Ms. McCarthy has had 18 years of experience in institutional investing.

Robert G. McEwen - Appointed to the Commission in 1992, Mr. McEwen is a retired chartered accountant and was a Deputy Director of the Commission.

ADVISORY COMMITTEES AND FOCUS GROUPS

Securities Advisory Committee

The Committee was established by the Chairman of the Commission to meet when required to provide advice on regulatory matters. The Committee has provided advice on new policy initiatives developed by the Commission. The Committee has also been called upon to advise on changes within the industry and how the Commission can best deal with those changes.

Dave Cheop, Investors Group Inc.
Ken Cooper, Winnipeg Stock Exchange
Ben Corn, Winnipeg Commodity Exchange
Ed Griffith, Scotia McLeod / Investment Dealers Association
Mike Guttormson, Aikins, MacAulay & Thorvaldson
Bruce Jack, Deloitte & Touche
Tom Kormylo, Pitblado Buchwald Asper
Mel MacRae, Rice Financial Group Inc.
Dave Phillips, Investment Dealers Association (Alternate)
Tom Rice, Rice Financial Group Inc.(Alternate)
Lloyd Thomas, PricewaterhouseCoopers
Bruce Thompson, Thompson Dorfman Sweatman(Alternate)
Tom Waitt, Nesbitt Burns / Investment Dealers Association

Industry Focus Group

The committee was established by the Education and Information Coordinator of the Commission The committee meets when required to advise commission staff on ways the Commission can better communicate and work with industry and the public in a manner that advances the mandate of the Commission.

Dave Cheop, Investors Group Inc.
Brian Davies, SummittAurum Financial Group Inc.
Daryl Diamond, Diamond Retirement Planning Ltd.
Shaun Humphries, AQ Fund Management Inc.
Gene Sobie, Rice Financial Group Inc.
Andrew Suthern, Wright Financial Planning Group Inc.

Real Estate Advisory Council

The Real Estate Advisory Council is a non-statutory advisory body established by the Commission and The Manitoba Real Estate Association.

The Mandate of the Council is to advise and make recommendations to the Commission and MREA on real estate issues; to review mutually beneficial ideas, policies or legislative reform; and give early warning or advance notice to the Commission of trends or developments arising in the real estate industry.

Edward Brown, Pitblado Buchwald Asper
Brian Collie, The Manitoba Real Estate Association
John Froese, Homelife Properties Inc.
Guy Hobman, Greentree Homes (Winnipeg) Ltd.
Brad Munn, Martin Liberty Realty Ltd.
Rick Preston, Royal LePage Real Estate Services
Jim Storsley, The Manitoba Securities Commission
Derek Thorvaldson, Remax Real Estate Inc.
Brad Walker, Gill & Schmall Agencies

Real Estate Advisory Committee

The Real Estate Advisory Committee was established by the Real Estate Advisory Committee Regulation (Manitoba Regulation 593/88) under *The Real Estate Brokers Act*.

The Committee reviews and recommends projects to the Commission for funding from the interest which the Commission receives from real estate brokers' trust accounts.

The Real Estate Brokers Act and Manitoba Regulation 593/88 describe the types of projects that the Commission may approve for funding:

- educational programs relating to the real estate industry and the objectives of *the Act*;
- not-for-profit initiatives to promote affordable home ownership and area revitalization;
- real estate research and legislative reform;
- the study and improvement of real estate business practice; and
- other projects designed to further the objectives of *the Act*.

Recommendations for funding are made to the Commission through the Registrar of *The Real Estate Brokers Act.*

W.G. Burns, Chairman, broker, Royal LePage Real Estate Services
John Froese, broker, HomeLife /Properties Inc.
Florence M. Zawadsky, broker, Martin Liberty Realty, Brandon
Susan Enns, salesperson, Royal LePage Real Estate Services
Robert B. Giesbrecht, solicitor, public representative

REGULATORY ASSOCIATIONS

The Commission is a member of the following Regulatory Associations.

Canadian Securities Administrators (CSA)

The CSA deals with regulatory issues of common interest and has proceeded with numerous public initiatives designed to establish the Canadian Securities Regulatory System.

North American Securities Administrators Association (NASAA)

Comprised of Securities Regulators from Canada, the United States, Mexico and Puerto Rico. NASAA provides a forum for discussion of regulatory issues, as well as providing professional development courses for Commission staff.

The Association of Real Estate License Law Officials (ARELLO)

The primary purpose of ARELLO is the better administration and enforcement of real estate license and regulatory laws achieved by ARELLO, and providing its members with opportunities for professional improvement.

PART II - SECURITIES

OVERVIEW

The mission and goals of the Commission are supported by the following core values:

- Provide strong management to ensure regulatory effectiveness, control and accountability;
- Strive to use current technologies as an innovative approach to meet market expectations;
- Promote continuous learning, teamwork, service, market innovations and performance improvement; and
- Provide service excellence to clients at reasonable prices.

The operations of the Securities division of the Commission can be divided into the seven functional areas noted above. Although each functional area has unique duties and responsibilities, the complex nature of many securities regulations requires a high degree of cooperation and coordination between functional areas. Cooperation between these areas is also

essential for the Commission to achieve its core values in an increasingly complex and rapidly changing industry.

REGISTRATION

The Registration Section reviews and determines whether it is in the public interest to register a person or company to trade or advise in securities or commodity exchange contracts. Applicants for registration must meet educational requirements, individuals must be supervised and companies must meet capital requirements.

Compliance Examination

The registration section also performs an ongoing compliance function to ensure continued registration of persons and companies is in the public interest. The Commission monitors the conduct and solvency of registrants to ensure compliance with legislation, rules and policies. In the past, this was done through the review of financial reports submitted by registrants. In the last fiscal period, the Commission has commenced compliance examinations of registrants. The initial focus of these examinations will be on Manitoba-based mutual fund dealers and investment counsel, and portfolio managers. During the fiscal period, seven examinations were performed.

National Registration Database

The Canadian Securities Administrators (CSA) is taking steps to simplify the registration process by developing the National Registration Database (NRD). The NRD will contain information on registrants across Canada and will provide public access to portions of this information. The NRD will also permit an application for registration to be made to all or multiple jurisdictions by way of a single electronic application. The Commission is participating in development of the NRD and anticipates it will be operating in 2001.

Mutual Reliance Review System (MRRS) for Registrations

The Commission is also actively involved in the CSA initiative to develop a mutual reliance system for the review of registration applications. Similar to systems in place for prospectus reviews and the processing of applications for exemptions from regulatory requirements, the MRRS system would permit an applicant for registration under securities and commodities legislation to deal with a single Canadian regulatory authority (the "principal jurisdiction"). The principal jurisdiction would then conduct the primary review of the application and coordinate the processing of the application with other jurisdictions when registration is sought.

The Commodity Futures Act

As of February 1, 2000 the Commission became responsible for administration of *The Commodity Futures Act*. The Commission is now responsible for registering all dealers and advisers and salespeople who are trading in commodities futures contracts in Manitoba. Commission staff have been actively involved in assisting the futures industry transition to the requirements of the new *Act*. This includes the development of registration requirements and a commodities registration system, which will be implemented early in the next fiscal period.

REGISTRATIONS ISSUED	1999/2000	1998/1999
Salespeople	5497	4839
Trading Officials/Branch Mgrs.	959	485
Brokers, Broker Dealers & Investment Dealers	151	132
Security Issuers	3	3
Securities Advisors	2	1
Investment Counsel	21	4
International Advisors	17	17
Underwriters	1	0
TOTALS	**6651**	**5481**

At the end of the year 1999-2000 there were 6651 registrations issued, including Broker Registrations/Renewals, Individual Registrations/Renewals, Branch Managers and Trading Officials registrations. Also, 551 Branch Offices were registered by the end of the year.

A total of 858 Broker Amendments under the *Securities Act* were processed which includes the addition or deletion of branch offices, branch managers, trading officials and non-trading officials.

At the end of the year 1999-2000, 369 Transfer of Registration certificates were issued.

Due to the recent proclamation of *The Commodity Futures Act* on February 1, 2000 and transitional provisions that do not require registration under the *Act* to be completed until November 1, 2000, these figures are limited to registrants under *The Securities Act*.

CORPORATE FINANCE AND CONTINUOUS DISCLOSURE

Commission staff review prospectus filings and certain other offering documents to ensure that they contain full, true and plain disclosure of all material fact that are necessary to make an informed investment decision. Public companies are also required to file documents such as financial statements, insider reports, reports of material changes and proxy materials with the Commission.

The Commission monitors these filings as well as other offering and reporting documents required to be filed by legislation or regulation.

FILINGS PROCESSED	1999/2000	1998/1999
Prospectus	771	456
Prospectus Amendments	138	78
Annual Information Forms	509	490
Rights Offerings	21	18
Take-Over Bid Circulars	110	93

Mutual Reliance Review System for Prospectuses and Annual Information Forms

Commission staff, along with staff of other members of the CSA, developed, tested and implemented a MRRS Policy for the review of prospectuses and annual information forms in a MRRS environment. Under MRRS, Canadian securities regulators co-operate to enable filers to deal with only their home jurisdiction rather than each jurisdiction separately.

National Policy 43-101 - Mutual Reliance Review System for Prospectuses and Annual Information Forms was implemented January 1, 2000.

SEDAR

The System for Electronic Document Analysis and Retrieval (SEDAR) has been used since January 1, 1997 to electronically file securities-related information with the Commission and other CSA jurisdictions. SEDAR allows documents to be filed with all regulators simultaneously and provides for secure electronic communication between filers and regulators. The web site www.SEDAR.com, gives access to public SEDAR information to anyone with access to the Internet.

Over the last year, many changes have been made to SEDAR. The most significant change is SEDAR Release 6 (SEDAR R6), which was introduced on September 6, 1999. SEDAR R6 supports Windows NT, Windows 95 and Windows 98, and the screens have a look and feel similar to other applications running under these platforms. All documents filed with SEDAR must use Adobe PDF format to make it easier for filers to submit information and easier reading for the public. SEDAR R6 implemented changes to the system to accommodate the Mutual Reliance Review System (MRRS) and National Instrument 81-101, resulting in new fields, new formal correspondence types, new filing types and new document types. New filing types for the MSC and the Winnipeg Stock Exchange (WSE) were added to facilitate joint filing with the MSC and WSE. Nunavut, a new recipient agency was also added.

PRIVATE PLACEMENT & EXEMPT OFFERINGS

The Commission recognizes the benefit to the Manitoba economy and the public in providing an environment that encourages the development of business and the need of those businesses to raise capital. Where the size of the business or the amount of capital to be raised does not warrant the use of a prospectus, securities regulation provides ways to assist businesses and make new offerings of securities available to Manitobans.

The *Act*, regulations and rules provide exemptions from the requirement to use a prospectus and the requirement to trade in securities through someone registered under *The Securities Act*. Some exemptions exist. They are based on the nature of the security sold, the dollar amount of the purchase, as well as the knowledge of the purchaser. Limited offering exemptions are based on an offering of securities being made to a limited, identifiable group of purchasers, and are used by new businesses that need capital to establish operations. Purchasers of securities in limited offering exemptions either have knowledge of the business they are investing in or are required to seek independent advice with respect to the investment prior to purchase.

Private Placement Filings	1999/2000	1998/1999
Private Placements	150	156
Limited Offering Regulations	53	39

EXEMPTIONS AND ORDERS

Exemption Applications

Applications are made to the Commission for exemptions from regulatory requirements in situations where the granting of an order is not contrary to the public interest. The Commission deals with national applications and local applications.

National and Regional Applications

The Commission processes national and regional applications through the Mutual Reliance Review System for Exemptive Relief Applications system created by the Canadian Securities Administrators as part of the Canadian Regulatory System. Prior to the system, access to Commission orders required an applicant to make separate applications to each securities regulatory authority. Under the new system, a single application can be processed in several jurisdictions with a single decision document evidencing the decision of the regulatory authorities.

The greater efficiency created by the system has resulted in an increased number of applications filed in Manitoba. The system benefits applicants who intend to offer securities to the public across the country and results in more products being offered to the public in Manitoba.

Manitoba Applications

Applications for exemptions from regulatory requirements by Manitoba companies and issuers include exemptions from requirements when Manitoba legislation differs from one or more of the other Canadian jurisdictions, as well as applications required to facilitate capital raising projects within the province.

The Commission continues to be supportive of local community based projects. These projects created by a community or local business group provide a benefit to a local community. Orders have been granted by the Commission to local groups to raise capital for the construction of various agricultural facilities as well as commercial ventures such as hotels. Although the Commission does not create business plans or proposals to support local projects, they do work closely with applicants to ensure each group has the tools required to raise capital in a manner that does not compromise the investor protection objectives of securities regulation.

The Commission also continues to monitor applications filed for exemptions from regulatory requirements, and determine what changes should be made to legislation, regulation, policy and rules. The increasing number and types of products being offered to the public, as well as changes in how products are distributed to the public arising from matters such as the restructuring of Canadian stock exchanges, have resulted in a need to ensure regulatory

requirements continue to provide a sufficient level of investor protection without imposing unnecessary barriers to raising capital.

The total number of orders issued under the Securities Act for fiscal 1999/2000 are as follows:

ORDERS ISSUED	1999/2000	1998/1999
Exemption Orders	267	177
Take-Over Bid Orders	181	21*
Inside Reporting Orders	37	23
Financial Reporting Orders	48	23
Cease Trade Orders	29	143
Miscellaneous Orders	30	12

*Last year's total did not include all the types of orders being reported in 1999/2000.

LEGISLATION AND POLICY DEVELOPMENT

Through the use of rule-making powers in both *The Securities Act* and *The Commodity Futures Act,* the Commission is reviewing existing policies and regulations to develop a system of rules and policies consistent with the requirements of industry and the investing public. Additional staff hired by the Commission in the past year, including a policy lawyer and a commodities officer, have assisted in this process.

In the past year the Commission developed rules required for the administration of *The Commodity Futures Act,* which was proclaimed on February 1, 2000. Temporary rules were enacted on February 1, 2000 with work continuing on a final form of rule to be published for comment and finalized during 2000. The rule was a result of consultation with industry representatives and the Winnipeg Commodity Exchange.

The Commission also continues to work with other regulators across Canada to standardize various regulatory requirements. This process involves the development of Commission rules that are consistently applied across the country.

The following are some of the policy and legislative initiatives undertaken in the last year:

Mutual Fund Rule and Policy Development

Commission staff participated in the development and implementation of a revised regulatory framework for the operation of mutual funds and a new prospectus disclosure system for mutual funds. This work culminated in the coming into force of the following on February 1, 2000:

- National Instrument 81-101 and Mutual Fund Prospectus Disclosure and its Companion Policy 81-101CP and forms.
- National Instrument 81-102 Mutual Funds and its Companion Policy 81-102CP.

Corporate Finance Accountants Practice Manual

Commission staff are working with CSA Chief Accountants and Corporate Finance Committee's project working on the development of a Corporate Finance Accountants Practice manual. The

manual will provide guidance on a national basis for accounting, auditing and financial disclosure matters.

CSA Committees

Commission staff participate on various CSA Committees and working groups. During 1999, the Commission was represented on the following committees:

Capital Markets	SEDAR Working Group	Corporate Finance Accountants'
Corporate Finance	Take-over bids	Manual
Enforcement	Insider Trading Reporting System	Exchange Restructuring
Executive Directors	Continuous Disclosure Review	Legislative Coordination Committee
Internet	MRRS for Prospectus Filings	MRRS Applications
Investor Education	Integrated Disclosure	National Registration Data Base
Financial Planning	Mutual Funds	

INVESTIGATION AND ENFORCEMENT

A strong economy and an increase in the number of people investing in capital markets and trading in real estate has resulted in a significant increase in the number of inquiries and complaints to the Commission. While many inquiries can be resolved without the need for an investigation, there have been and continues to be a significant number of matters that require investigation and enforcement action by way of a Commission hearing or court prosecution.

Recognizing increasing demands and the need to properly investigate potentially illegal market activity, the Commission hired an additional investigator in the past year. The Commission also continues to cooperate with the Investment Dealers Association of Canada and coordinates investigations with that organization to avoid duplication. This has permitted the Commission to focus investigation resources on matters that suggest serious breaches of industry requirements.

The increasing number of people investing in capital markets in Manitoba has lead to an increase in the size and complexity of matters handled by Commission staff. Where in the past a complaint may have involved one client and a limited number of trades, many cases now involve many investors and numerous trades. This requires increased resources for each matter and in several cases has lead to the use of experts to assist Commission staff in the interpretation of evidence.

Increased reliance on electronic trading systems and the Internet has resulted in increased trading activity by the public, including access to both legitimate and illegitimate investment promotions. Staff continue to respond to public inquiries about these matters and have taken steps against issuers and promoters of securities when activities are conducted in violation of Manitoba legislation. In addition, the growth in popularity of electronic trading and order entry systems has resulted in new inquiries from the public about both the level of service provided and the applicability of investor protection requirements.

The changes in products and methods of delivery of information and investment services will continue to pose new challenges to the Commission in the future.

ORDERS ISSUED	1999/2000	1998/1999
Investigation Orders	12	11

Hearings

The Commission has jurisdiction under the statutes it administers to hold hearings. Although any decision or exercise of discretion by the Commission or its staff can result in a hearing, most hearings before the Commission deal with two situations: to consider whether the conduct of a person or company registered with the Commission warrants a suspension or cancellation of registration; and to determine whether it is in the public interest to deny a person or company the right to rely on registration or prospectus exemptions contained in *The Securities Act*.

Chase Mutual Investment Services Inc., William Wise and Dan Christante

Commission order 2625 dated September 20, 1999

By way of a settlement agreement approved by the Commission Chase, Wise and Christante acknowledged trading in an investment contract without registration or prospectus to a Manitoba resident. It was also acknowledged that there was a guaranteed rate of return made to the Manitoba investor in violation of the *Act*. Each of the parties were prohibited from relying on prospectus and registration exemptions for a period of one year. A total of $3000 in costs was ordered to be paid to the Commission.

John Joseph Evers

Commission order 2554 dated July 14, 1999

By way of a settlement agreement approved by the Commission, Evers, formerly registered as a salesman under the *Act*, acknowledged taking personal loans from clients, misappropriating client monies and retaining client monies for personal use. Evers, who was no longer registered with the Commission at the time of the hearing, received a lifetime prohibition from relying on the prospectus and registration exemptions contained in the *Act*.

PFSL Investments Canada Ltd.

Commission order 2546 dated July 8, 1999

By way of a settlement agreement approved by the Commission, PFSL (registered as a broker under the *Act)* acknowledged that as a result of inadequate supervision of office activities certain unregistered individuals were permitted to conduct trading activities as part of a training program. In addition to ending the activities in dispute, the registrant terminated the employee involved in those activities. The Commission ordered that the registrant receive a reprimand and that costs of $4,900 be paid to the Commission.

Kip Poitras

Commission order 2783 dated January 26, 2000

By way of a settlement agreement approved by the Commission, Poitras acknowledged to having traded in securities with Manitoba residents in violation of the prospectus and registration requirements of the *Act*. Poitras was denied the right to rely on the prospectus and registration exemptions contained in the *Act* for a period of four years.

Simon Meyer Rothschild, Simon De Rothschild, Dean George Rothschild, D.S.M. Rothschild, Dean George McDonald, David Michael Costello and Simon Elah Weinstein (all being one and the same person) and S.M. Rothschild Mortgage Corporation

Commission order 2854 dated March 30, 2000

By way of a settlement agreement approved by the Commission, Rothschild acknowledged to having traded in securities with three clients while conducting an unlicensed law practice. The Commission ordered that Rothschild be denied the right to rely on exemptions from the prospectus and registration requirements of *the Act* for a period of 20 years.

Richard Dean Whittington and RDW Investments Ltd.

Commission order 2595 dated August 12, 1999

By way of a settlement agreement approved by the Commission, the parties acknowledged Whittington, formerly registered to trade in mutual funds, received funds from several clients. These funds were improperly converted for use by RDW. In addition, the agreement sets out instances where Whittington provided exaggerated and fictitious information to clients. Whittington was no longer registered at the time of the hearing. Both Whittington and RDW were denied the right to rely on prospectus and registration exemptions for life. The parties were ordered to pay costs of $2,500.

Gregory David Anderson

Reasons for decision dated September 29, 1999

Following a contested hearing, the Commission found that Anderson, registered as a salesman under the *Act*, transferred a client account without the instructions, authorization or consent of the client. The Commission ordered that the registration of Anderson be suspended for two years. In addition, it was ordered that Anderson be denied the right to rely on prospectus and registration exemptions contained in the *Act* for a period of two years. Anderson was also ordered to pay $3,000 in costs.

Roger E. J. Fontaine

Reasons for decision dated July 2, 1999

Following a contested hearing, the Commission found Fontaine, registered as a salesman under the *Act*, recommended an investment strategy for several clients that required clients to borrow monies to purchase investments. This strategy (known as leveraging) was found to be both unsuitable and excessive. It was also found that the risks of leveraging were not explained to clients. Fontaine, who was no longer registered at the time of the hearing, was permanently denied the right to rely on prospectus and registration exemptions in the *Act*.

Michael Sidiropoulos

Reasons for decision dated December 30, 1999

Following a hearing, the Commission found that Sidiropoulos, who was registered as a salesman under the *Act* at the time of the conduct in question, violated the *Act* by guaranteeing a rate of return on a security. Sidiropoulos was also found to have conducted unauthorized trades in the account of a client. It was also found that trades were made for the purpose of generating commissions and not for a legitimate investment purpose (this is referred to as *churning*). Sidiropoulos was denied the right to rely on prospectus and registration exemptions under the *Act* for life. Costs of $20,000 were assessed by the panel.

Roland Emile Tetrault

Reasons for decision dated February 29, 2000
Following a contested hearing, the Commission found that Tetrault, registered as a salesman under the *Act*, acted improperly by failing to complete a new client application form as well as making recommendations that were not suitable for his client. The Commission ordered that a reprimand be noted in Tetrault's registration file. The bulk of the allegations made as against Tetrault were dismissed.

Prosecutions

Violations of the statutes administered by the Commission can also lead to charges being laid and prosecuted in Manitoba courts. Commission staff function as Crown prosecutors when charges are laid in provincial court.

Galsworthy Holdings Ltd. Operating as Winfield Developments Canada

On May 4, 1999 a guilty plea was entered for one count of failing to file an Accountant's Report with the Commission as required under *The Real Estate Brokers Act*. The court imposed a fine of $100 and $47 in costs.

Leon A. Brown Limited

On September 7, 1999 a guilty plea was entered for one count of failing to file an Accountant's Report with the Commission as required under *The Real Estate Brokers Act*. The court imposed a fine of $100.

Chase Mutual Investment Services Inc.

On September 17, 1999 a guilty plea was entered to two counts of trading without a prospectus, two counts of trading without registration and two counts of illegal trading in an investment contract, all under *The Securities Act*. The court imposed a fine of $500 for each count, for a total of $3,000.

Kip Poitras

On October 29, 1999 a guilty plea was entered to three counts of trading without a prospectus and three counts of trading without registration under *The Securities Act*. The amount of each trade in securities was $7,200, $7,200 and $5,000. The court imposed a fine of $1,200.

Simon Meyer Rothschild

On February 7, 2000 a guilty plea was entered to a total of 12 counts of trading without a prospectus and trading without registration under *The Securities Act*. Three investors provided monies totaling $52,279 to Rothschild for investment in either an investment company or a mortgage company, both of which were created by Rothschild. The court imposed a total fine of $5,000. Rothschild also plead guilty to separate charges initiated by Manitoba Justice under the Criminal Code which sentence included a requirement to make restitution.

Richard Dean Whittington

On March 16, 2000 a guilty plea was entered to three counts of trading without a prospectus, three counts of trading without registration and two counts of making a representation that a security would be listed on a stock exchange without the permission of the director of the Commission. Whittington, registered as a mutual fund salesman at the time of the offences, recommended the purchase of shares and strip bonds to existing clients. The monies were used by Whittington for personal and business purposes. No securities were purchased for clients. The court imposed a sentence of 90 days in jail and a fine of $300 for each count (a total of $2,400).

EDUCATION AND INFORMATION

The Manitoba Securities Commission believes that an informed investor is a protected investor and as such, in November 1999 the Commission hired a full-time Education and Information Coordinator. An Education and Information two-year strategic plan was drafted whereby three populations were identified as the targets for providing education opportunities: the general public, industry practitioners and Commission staff. The Commission is committed to bringing quality educational opportunities to the people of Manitoba.

Public

The Commission encourages investors to "investigate before you invest." To assist individuals with this process, the Commission has several sources of information that the public can access free of charge.

Investor Education Kits

The Commission has available to investors, Investor Education Kits that have been produced in conjunction with the Canadian Securities Administrators (CSA). The kit contains brochures on:

- Getting Started;
- Choosing Your Financial Advisor;
- Mutual Funds - What You Need to Know;
- The Prospectus - What it is and Why You Should Read It;
- Exempt Market Securities - Look Before You Leap; and
- Investing and the Internet - Be Alert to Signs of Fraud.

The kit also contains an investment planning worksheet, a poster that describes the characteristics of various types of securities, and a pad for taking notes when you have a conversation with your broker.

Additional Educational Materials

The Commission also has available information on a variety of investment topics produced by investor education centres across Canada. You can obtain copies of this material by calling the Commission.

www.msc.gov.mb.ca

In January 2000, the Commission launched a web site. Information on Investor Protection, Policy and Procedures, Rules and Regulations, forms, fee schedule, orders, hearings, prosecutions and registration information is found on the web site.

Investor Education Week

Investor Education Week was held in April 1999 and the Commission, together with the Canadian Securities Institute, hosted a free evening presentation to the public. The presentation provided information on various types of investment risk.

Brochures

Staff of the Commission have written, designed and produced a brochure entitled "About The Manitoba Securities Commission." Contact the Commission for your free copy.

Industry Practitioners

Presentations

In March 2000, the Commission prepared two presentations for industry practitioners. The presentations focus on the "Investigation Process" and the "Audit Process" and are delivered by Commission staff. These presentations have been well received and were booked through June of 2000.

The Commission also developed and presented a seminar dealing with National Instrument 81-101 and 81-102. Three presentations were made to various industry participants and professional groups.

Focus Group

A focus group with representation from the Securities Industry has been created. The group meets on an informal basis. The purpose of the group is to assist the Commission in gathering information from these professionals concerning educational initiatives being considered when planning education programs for industry participants. The first meeting was held in March 2000 and two projects as proposed by the group will be launched in September 2000.

Commission Staff

Media Training

The Commission hired a media consultant in January 2000 to train staff in the delivery of TV, radio and print interviews and press release writing. A general Commission media strategy was developed.

National Instrument Training

To prepare for the introduction of new rules for mutual fund prospectuses, Commission staff participated in a National training session, which was held in Toronto in January 2000. Staff also conducted similar presentations to industry representatives.

NASAA

The Commission is a member of the North American Securities Administrators Association (NASAA). As a NASAA member, the Commission receives training vouchers that permit Commission staff to participate in various training seminars and regulatory programs. These training programs also provide Commission staff with the opportunity to share and receive information with securities regulators from other jurisdictions.

PART III - REAL ESTATE

OVERVIEW

The Real Estate Division administers *The Real Estate Brokers Act* and *The Mortgage Dealers Act*. The Real Estate Division is responsible for registering real estate brokers and salespersons and mortgage dealers, investigating complaints involving alleged violations by registrants, and providing public protection by maintaining and raising industry standards.

REGISTRATION

Pre-licensing Education

The pre-licensing education courses and exams for applicants are prescribed by the Commission. The courses and exams are administered by The Manitoba Real Estate Association (MREA) on the Commission's behalf. Education standards are monitored and maintained through the Registrar, who is a permanent member of MREA's Education and Examination Review Committees.

In July 1995, the federal, provincial and territorial governments signed the Agreement on Internal Trade (AIT) seeking to reduce interprovincial barriers to the movement of workers, goods, services and capital. Provincial licensing education was identified as a barrier to interprovincial trade in the real estate industry. Subsequent to signing of the AIT, The Canadian Real Estate Association through the Alliance for Canadian Real Estate Education (ACRE) undertook an extensive review of real estate education. This review culminated with creation of a National

Code of Education in 1999 to facilitate recognition of licensing standards among the provinces and enable compliance with the AIT.

On January 1st, 2000, the Commission approved a revised salesperson's pre-licensing course and examinations for applicants prepared by the MREA to comply with the Code. The MREA is revising the broker's course and developing a Mandatory Continuing Education program for real estate practitioners to comply with the Code.

Canadian regulators are preparing an Authorization Recognition Agreement (ARA) to facilitate interprovincial licensing recognition and meet the objectives of the AIT. It is anticipated that the ARA will be finalized at the annual meeting of ARELLO at Salt Lake City in October 2000 at which time it will forwarded to the jurisdictional representatives for ratification.

The deadline for regulatory bodies to meet the objectives of the AIT is June 2001.

REGISTRATIONS ISSUED	**1999/2000**	**1989/1999**
Real Estate Brokers	419	414
Real Estate Broker-Authorized Officials	646	676
Real Estate Salespeople	1380	1343
Private Sales Agents	8	0
Mortgage Dealers	11	11
Mortgage Dealer - Authorized Officials	13	15
Mortgage Salespeople	6	4
Totals	**2483**	**2463**

To the end of the year of 1999-2000 there were 2483 certificates issued for Salespeople & Brokers Registrations/Renewals, and also for 33 Branch Offices.

A total of 1 Amendment under the Real Estate Act was processed along with 16 Re-Instatement's, 5 Exemptions and 172 Transfers. A total of 25 Exams made up of 5 M.S.C. R.S. Exams, 4 M.S.C. R.B. (P.M.) Exams, and 16 New Home R.S. were administered.

Compliance Audit and Enforcement

The compliance audit program of the Real Estate Division consists of advising brokers on accounting and legislative requirements related to trust accounts and record keeping, reviewing brokers' trust account reports and dealers' financial statements filed annually with the Registrar, a program of field audits, and follow-up field visits, and special audits for suspected trust shortages.

Commission staff reviewed approximately 450 annual trust account reports and financial statements for registered brokers and dealers and 32 final audit reports on brokers who discontinued their operations. The Commission suspended six brokers for failing to file their annual trust account report on time.

INVESTIGATION AND ENFORCEMENT

The enforcement program addresses three main areas of investigation:

- Complaints alleging infractions under the statutes;
- The background and conduct of applicants; and
- Unregistered activity.

In addition to dealing with approximately 400 verbal complaints and inquiries, the Real Estate Division received 69 formal complaints. The investigation of 34 of the complaints is ongoing. Of the 35 completed investigations, 24 were found to be unsubstantiated or were resolved with the assistance of Commission staff; warnings or reprimands were issued in 10 cases; in one case a registrant was required to take the relevant portion of the qualifying course.

To the end of the fiscal year 1999/2000, orders and registrations were processed as follows:

ORDERS ISSUED	**1999/2000**	**1989/1999**
The Real Estate Brokers Act		
Suspension Orders	5	6
Investigation Orders	0	4
Exemption Orders	5	5
Miscellaneous Orders	0	5
The Mortgage Dealers Act		
Exemption Orders	1	1

During the 1999/2000 fiscal year, the Commission convened 43 regular and 64 special meetings (53 under *The Securities Act,* 11 under *The Real Estate Brokers Act*).

Information pertaining to prosecutions held by the Commission with respect to the statutes administered by the Real Estate Section are found on page 17.

LEGISLATION AND POLICY

Policy Development

Real Estate Section staff enforce the Commission's registration and educational policies.

In 1996, the Commission and MREA established The Real Estate Advisory Council. The Council is a non-statutory body that advises and makes non-binding recommendations to the Commission and MREA on real estate issues. The Council consists of nine members representing various stakeholders. The Registrar is the Commission's representative on Council.

The Registrar reviews existing and proposed policy with the Council and recommends policy changes to the Commission for ratification.

The Council has dealt with a number of issues, including the following:

- Changes to the licensing and education of new home builders/agents;
- Business practice directives that were subsequently adopted by the MREA and the Commission dealing with *Supervision of Salespersons*, *Registration of Branch Offices* and *Unregistered Assistants*;
- The Commission's policy pertaining to Private Sales Agents;
- Discussed and approved the report of the Committee that is reviewing the statutory form of offer to purchase;
- Considered mandatory use of the Property Condition Statement by MREA members;
- Regulation of real estate appraisers and home inspectors;
- Buyer agency;
- Approved changes to *The Condominium Act* recommended by the MREA;
- Proposed amendments to *The Real Estate Brokers Act*; and
- Approved ARELLO's Internet Guidelines.

TRUST ACCOUNTS

Interest on Brokers' Trust Accounts

In 1987, amendments were enacted requiring interest on brokers' trust accounts not claimed by clients to be paid to the Commission. Regulations under *The Real Estate Brokers Act* established The Real Estate Advisory Committee to review and recommend real estate projects for funding from the interest the Commission receives. Funds not designated for projects are paid to the Minister of Finance on March 31st of every year. The cumulative results of this program are as follows:

RECEIPTS (in 000's)

Received	$283
Paid Out:	
Manitoba Real Estate Association	64
Pre-licensing education	
The Winnipeg Real Estate Board	180
Renovation Housing Project	
Minister of Finance	$40
Total	$283

Unclaimed Trust Money

In 1995, *The Real Estate Brokers Act* was amended to allow brokers to pay unclaimed trust money in their trust accounts to the Commission to clear the funds from their records. The trust money is held in trust by the Commission in the event that the rightful claimant submits a claim. On March 31st of each year the balance in the Commission's account, less a reserve for payment of future refunds, is paid to the Minister of Finance. The cumulative results of this program are as follows:

RECEIPTS (in 000's)
Accounted for as follows:

Received	$6
Paid Out	
TOTAL	**$6**

PART IV - INFORMATION TECHNOLOGY

OVERVIEW

Over the past fiscal year, the Commission has implemented and upgraded many applications used on a day-to-day basis. These implementations and upgrades required many resources and significant learning curves by the staff of the Commission. All principal systems of the Commission are Y2K compliant. A brief description of the Commission's principal systems are listed below.

Manitoba Securities Commission Information System (MSCIS)

MSCIS is used to track and store registrant and compliance information under the *Securities Act*.

The Commission obtained at no cost from the Alberta Securities Commission their Information System (ASCIS) to meet its Year 2000 challenges. EDS Systemhouse was hired on a contract basis to implement and perform developmental changes to ASCIS (now called MSCIS) to better meet the business needs of the Commission. The project was completed in eight months under budget and MSCIS went live in March 1999.

An upgrade was completed to the application software used to develop MSCIS in September 1999. Powerbuilder was successfully upgraded from version 5.0 to 6.5.

In January 2000, the Commission contracted further developmental work and maintenance of its MSCIS system to Paramount Computer Solutions. Future development *of The Commodities Futures Act* Registration System is being undertaken by Paramount Computer Solutions and is expected to be completed by September 2000. This new application will be used to track and store information required to administer *The Commodities Futures Act.*

Real Estate Information System (REIS)

REIS is used to track and store registrant and compliance information under *The Real Estate Brokers Act and The Mortgage Dealers Act.*

To meet its Year 2000 challenges, the Commission required a registration system for the Real Estate section of the Commission. As part of the contract with EDS Systemhouse to implement MSCIS, EDS also developed a new system for the Commission to meet the requirements. REIS also went live in March 1999.

Great Plains Dynamics

With the change in status to a Special Operating Agency "SOA," the Commission was required to implement an in-house accounting system to track and report its daily accounting activities for both internal and external use. Great Plains Dynamics was chosen by the Commission and implemented in-house by the Controller of the Commission.

SAP

The Province of Manitoba implemented SAP as its Financial Accounting and Human Resources system. SAP went live in April 1999 and all Special Operating Agencies including the Commission use the SAP system for Accounts Payables and Human Resource/Payroll processing.

SEDAR

The System for Electronic Document Analysis and Retrieval (SEDAR) is used to electronically file securities related information with the CSA (Canadian securities Administrators). It allows documents to be filed with all regulators simultaneously and provides for secure electronic communication between filers and regulators. SEDAR undertook a major upgrade from version 5.0 to 6.0 in September 1999. The Commission was successful in its upgrade of its in house systems to support the SEDAR upgrade.

PART V - FINANCIAL DISCUSSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

(To be read in conjunction with the audited financial statements for the year ended March 31, 2000)
(in 000's)

Introduction

The Manitoba Securities Commission reported net earnings of $2,686 for the year ended March 31, 2000, an increase of $1,440 over budget.

Summary of Overall Operating Results

The Manitoba Securities Commission an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba

Summary of Overall Operating Results

	Actual 1999/2000	Budget 1999/2000	Over/ (Under) Budget
Total Revenue	$5,200	$4,000	$1,200
Salaries & Benefits	622	893	(271)
Operating Expenses	146	94	52

Amortization	41	44	(3)
Total Expense	2514	2754	(240)
Net Earnings	$2,686	$1,246	$1,440
Disposition of Surplus Operating Funds	$700	$700	-

ANALYSIS OF OPERATING RESULTS

Net Earnings

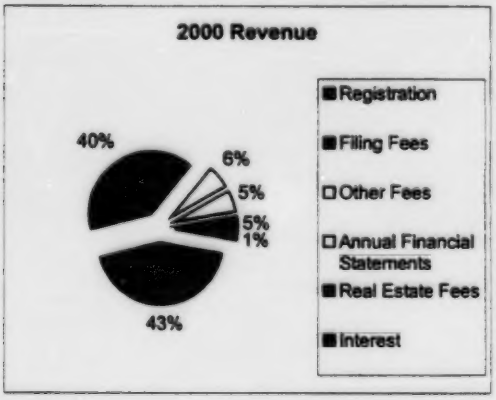
Net Earnings for the year were $2,686, this is $1,440 higher than budgeted for 1999/2000.

Revenue

Revenue in 1999/2000 was $5,200 as compared to $4,000 or $1,200 (30%) higher than budgeted in fiscal 1999/2000. This amount was higher than budgeted because of increased activity throughout the year.

Revenue Summary

(000's)	2000	(%)
Fees		
Registration	2,255	43%
Filing Fees	2,062	40%
Other Fees	310	6%
Annual Financial Statements	278	5%
Real Estate Fees	252	5%
	5,157	
Interest	43	1%
	5,200	100%



The Commission has four main sources of revenue. Registration fees are comprised of fees charged for the registration of broker-dealers, salespersons, and trading officials. Filing fees are comprised of prospectus filing fees, renewal prospectus filing fees, amendments to prospectus and annual information forms. Annual financial statement filing fees are collected from reporting issuers who are required to file their annual financial statements. Real Estate fees comprised of fees charged for the registration of brokers and salespersons.

Also, the Commission invests surplus operating funds in 30, 60 and 90-day short-term investments which provide their source of interest income.

Expenses

The Commission budgeted $2,754 for expenses in Fiscal 1999/2000. Actual expenses were $2,514 or $240 (8.7%) under budget. The Commission had major decreases in two areas Materials & Supplies and Premises costs. These areas contributed to a decrease in operating expenses of $190 (7.5%). The remainder of the decrease was attributable to a later than expected hiring of five new professional staff positions which directly affected all other areas of expenditures. See the Schedule of Operating Expenses in the Notes to the Financial Statements.

Salaries & Benefits

Salaries & Benefits comprised 68% of total expenses in the fiscal year 1999/2000. The Commission had an average of 33 FTE (Full Time Equivalent) employees during this timeframe, as well as temporary staff throughout the year. The Commission's FTE staff is made up of 20 professional/technical and 12 support staff. Salaries and benefits were $18 below budget for fiscal 1999/2000.

Operating Expenses

Operating expenses comprised 25% of total expenses in the fiscal year 1999/2000. The following is a description of the operating expenses for the Commission.

Staff Development & Training

The Commission encourages the training and development of its employees. To better serve the public, employees are sent on various seminars, conferences and training courses to develop their skills, abilities and knowledge. Staff development and training made up 1% of overall operating costs.

Professional Memberships & Dues

The Commission is a member of a number of organizations and as such pays applicable membership dues. The Commission's legal counsel are members of the Manitoba Law Society and as membership is required to practice, these dues are paid by the Commission. Professional memberships and dues made up 1% of overall operating expenses.

Premises

The Commission pays accommodation costs for its Winnipeg office space. The Commission completed leasehold improvements in 1999/2000 to accommodate an increase in staff. The accommodation costs will increase in the next fiscal year by $21 (18.6%) due to the increase in space needed. Also, Insurance premiums for the Commission are included under premises costs as well as repairs and maintenance costs. (typically very minor). Premise costs made up 19% of overall operating expenses.

Contract Services

Contract services made up 39% of overall operating expenses. This category is made up of a number of expenses, including desk top support, desk top lease costs, a number of support costs for the Commission's various information systems and departmental chargebacks by other government departments and agencies.

Professional Services

This category includes the costs such as annual audit, consulting, legal services, record and court reporting. Professional Services made up 9% of overall operating expenses.

Travel

Travel costs made up 6% of overall operating costs. This category includes costs such as airfare, hotel, meals and mileage. These costs may vary with the amount of travelling required within any given year.

Telecommunications

This category includes costs for telephone, long distance, facsimile and WAN charges. These expenses made up 7% of overall operating expenses.

Office Materials & Supplies

This category includes costs for office supplies, postage and courier, office equipment rental, furniture and fixtures and computer software and hardware not being capitalized. Office Materials made up 11% of overall operating expenses.

Miscellaneous

This category includes costs for miscellaneous goods and services. Miscellaneous expenses made up 7% of overall operating expenses for the fiscal year 1999/2000 at the Commission.

Amortization

The Commission's policy is to capitalize assets purchased for more than five hundred dollars. The Commission amortizes its assets using the straight-line method. Amortization made up 6% of total expenses.

Interest

This category includes interest paid on the assets purchased by the Commission as at March 31, 1999. Interest made up 1% of total expenses.

Capital Expenditures & Liabilities

Capital Expenditures for the year totaled $165. These expenditures were for Leasehold improvements in the amount of $113 and Furniture and Fixtures in the amount of $43. The expenditures were principally for the additional space required for the increase in staff.

Profit Sharing

The Manitoba Securities Commission makes quarterly payments to the Province of Manitoba totaling $700 for its share of profit sharing. This amount is recalculated annually and included in the Commission's business plan as a disposition of surplus operating funds in the Statement of Earnings.

Liquidity

Liquidity can be defined as an organization's ability to meet it financial obligations as they come due. Liquidity management provides the certainty that funds will be available to honour all commitments and involves continuous forecasting and monitoring of expected cash flows. The Commission requires liquidity principally to finance its operations and capital expenditures.

THE MANITOBA
SECURITIES
COMMISSION

RESPONSIBILITY FOR FINANCIAL REPORTING

The Commission's management is responsible for preparing the financial statements and other financial information in the Annual Report. These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial statements include amounts that are based on management's best estimates and judgements. The Commission's financial statements have been audited by Sill & Company, independent external auditors.

The Commission maintains accounting and internal control systems to provide reasonable assurance that its financial information is reliable and accurate and that its assets are adequately protected.

The Commission's management meets regularly to review the financial statements and accounting practices. The auditors have free and full access to management, if required to discuss results of their audit and their views on the adequacy of internal controls and the quality of financial reporting.

On behalf of management,

Donald G. Murray
Chairman and C.E.O.

John Hudohmet
Controller

MANITOBA SECURITIES COMMISSION
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

FINANCIAL STATEMENTS

March 31, 2000

Sill & Company
Chartered Accountants

MANITOBA SECURITIES COMMISSION
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

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Sill & Company
Chartered Accountants

AUDITORS' REPORT

TO THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY:

We have audited the balance sheet of **MANITOBA SECURITIES COMMISSION, AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY, PROVINCE OF MANITOBA** as at **MARCH 31, 2000** and the statements of income, retained earnings, reserve funds and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at **MARCH 31, 2000** and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting principles.

Sill + Company

Winnipeg, Manitoba
June 7, 2000

CHARTERED ACCOUNTANTS

Suite 600, 175 Hargrave Street
Winnipeg, Manitoba R3C 3R8
Tel: (204) 944-8720
Fax: (204) 947-3468
inquiries@sill.ca www.sill.ca

Thomas Sill C.A.
(1927-1986) Founder

Partners
W.D. Bodman C.A.
K.W. Grower F.C.A.
S.G. Andrew C.A.
F.A. Wiebe C.A.
N. Fry C.A.
W.W. Findlater C.A.
R.J. Martens C.A.
T.R. McKim F.C.A.
D.L. Anderson C.A.
A.A. DeVliegere C.A.
R.W. Westfall C.A.
G.J. Meger C.A.
M.J. Millis C.A.
D.J. Einarson C.A.
R.A. Lawrence C.A.

Consultants
N. Fiske F.C.A.
R. Filuk F.C.A.
K.M. McLean C.A.
M.A. Malazdrewicz F.C.A

MANITOBA SECURITIES COMMISSION
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

BALANCE SHEET
(in thousands)
March 31, 2000

	ASSETS	
CURRENT		
Cash and short-term deposits (Note 3)	$	1,479
Accounts receivable (Note 4)		6
Prepaid expenses		21
		1,506
RESTRICTED SHORT-TERM DEPOSITS (Note 5)		512
RECEIVABLE FROM THE PROVINCE OF MANITOBA (Note 6)		254
CAPITAL ASSETS (Notes 2 and 7)		741
		3,013
	LIABILITIES	
CURRENT		
Accrued liabilities		25
Accrued vacation entitlements (Note 8)		145
Accrued salaries and benefits		32
Current portion of long-term debt (Note 9)		598
		800
SEVERANCE PAY LIABILITY (Note 10)		152
PENSION LIABILITY (Note 11)		75
		1,027
COMMITMENTS (Note 13)		
	EQUITY	
RESERVE FUND (Note 12)		435
RETAINED EARNINGS		1,551
		1,986
	$	3,013

MANITOBA SECURITIES COMMISSION
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

STATEMENT OF INCOME
(in thousands)
Year Ended March 31, 2000

REVENUE		
Fees	$	5,156
Interest		43
Miscellaneous		1
		5,200
EXPENSES		
Salaries and benefits		1,705
Operating expenses		622
Amortization - capital assets (Note 2)		146
Interest		41
		2,514
NET EARNINGS FOR YEAR	$	2,686

MANITOBA SECURITIES COMMISSION
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

STATEMENT OF RETAINED EARNINGS
(in thousands)
Year Ended March 31, 2000

RETAINED EARNINGS, BEGINNING OF YEAR	**$**	
Net earnings for year		**2,686**
Disposition of surplus operating funds		**(700)**
Allocation to Reserve Fund		**(435)**
RETAINED EARNINGS, END OF YEAR	**$**	**1,551**

STATEMENT OF RESERVE FUNDS
(in thousands)
Year Ended March 31, 2000

BALANCE, BEGINNING OF YEAR	**$**	
Allocation from retained earnings		**435**
BALANCE, END OF YEAR	**$**	**435**

MANITOBA SECURITIES COMMISSION
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

STATEMENT OF CASH FLOWS
(in thousands)
Year Ended March 31, 2000

CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings for year	$	2,686
Adjustment for		
Amortization - capital assets		146
		2,832
Changes in non-cash working capital		
Accounts Receivable		(6)
Receivable from the Province of Manitoba		(254)
Prepaid expenses		(21)
Accrued liabilities		25
Accrued vacation entitlements		145
Accrued salaries and benefits		32
Pension liability		75
Severance pay liability		152
		148
		2,980
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of capital assets		(887)
Transfer to restricted short-term deposits		(512)
		(1,399)
CASH FLOWS FROM FINANCING ACTIVITIES		
Disposition of surplus operating funds		(700)
Proceeds of long-term debt		728
Repayment of long-term debt		(130)
		(102)
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,479
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		
CASH AND CASH EQUIVALENTS, END OF YEAR	$	1,479

MANITOBA SECURITIES COMMISSION
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

NOTES TO FINANCIAL STATEMENTS
(in thousands)
March 31, 2000

1. NATURE OF ORGANIZATION

Effective April 1, 1999 the Lieutenant Governor in Council designated the Manitoba Securities Commission as a special operating agency under The Special Operating Agencies Financing Authority Act (C.C.S.M. c.S185) by Order in Council No. 144/1999. The Order also gave approval to the Special Operating Agencies Financing Authority and the Minister of Consumer and Corporate Affairs, being the Minister responsible for the Commission, to enter into a management agreement with respect to the Agency.

A management agreement between the Financing Authority and the Minister of Consumer and Corporate Affairs assigns responsibility to manage the assets transferred to the Manitoba Securities Commission in delivering regulated services to clients.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of reporting

The financial statements have been prepared in accordance with generally accepted accounting principles.

Capital assets

Capital assets are recorded at cost and amortized over their estimated lives as follows:

Office equipment	- 20% straight-line
Furniture and fixtures	- 20% straight-line
Leasehold improvements	- 10% straight-line
Computer hardware	- 20% straight-line
Computer software	- 20% straight-line

The half-year rule is used in the years of acquisition.

Revenue recognition

Fees and cost recoveries are recognized when received. Investment income is recorded on the accrual basis.

3. CASH AND SHORT-TERM DEPOSITS

The Commission invests all surplus cash into short-term deposits with the Province's Treasury Board; these deposits are made up of 30, 60 and 90 day callable term deposits.

All interest earned was received at March 31, 2000, therefore the interest income of $43 in the income statement equals the cash flow.

4. ACCOUNTS RECEIVABLE

Trade	$ 3
Employee computer purchases	3
	$ 6

5. RESTRICTED SHORT-TERM DEPOSITS

Reserve Fund	$ 435
Employee Pension Benefits	77
	$ 512

The Commission maintains separate short-term deposits with the Province of Manitoba to fund liabilities arising from the Reserve Fund (Note 12) and Employee Pension Benefits (Note 11).

6. RECEIVABLE FROM THE PROVINCE OF MANITOBA

The receivable from the Province of Manitoba is made up of vacation and severance pay entitlement earned by employees of the Commission prior to creation of the SOA as at April 1, 1999.

7. CAPITAL ASSETS

	Cost	Accumulated Amortization
Office equipment	$ 6	
Furniture and fixtures	48	2
Leasehold improvements	113	
Computer hardware	117	23
Computer software	603	121
	887	146
Cost less accumulated amortization	$	741

8. ACCRUED VACATION ENTITLEMENTS

The Commission follows the policy of the Department of Finance to recognize the vacation entitlement liability accumulated to March 31, 1999. The liability at this date is offset by a receivable from the Province and was $117 as at March 31, 1999. Any subsequent changes to the entitlement are reflected as a current year expense to the Commission. As at March 31, 2000 there was an increase to the entitlement in the amount of $28. At the end of the fiscal year 1999/2000 the accrued vacation entitlement was $145.

9. FINANCIAL ARRANGEMENTS

Long term financing is provided for significant capital purchases are provided through the Special Operating Agencies Financing Authority. The Financing Authority has loaned the Commission $728 which was to be payable in annual installments over five years at an interest rate of 5.625% for purchase of its capital assets. The Commission has recorded the remainder of this debt of $598 (after first year payment) as a current liability as it was able to repay the entire balance on April 1, 2000. Therefore a reclassification of this liability to current was made.

The interest accrued for this debt was paid as at March 31, 2000, therefore the interest expense of $41 in the income statement equals the cash flow.

10. SEVERANCE PAY LIABILITY

Effective April 1, 1999, the Commission is recording accumulated severance pay benefits for its employees. Severance pay is determined by multiplying years of service, to a maximum of fifteen years, by the weekly salary at date of retirement, provided the employee reaches nine years of service and retires from the Commission. The estimate is based upon the method of calculation set by the Province of Manitoba's Department of Finance.

The Province has accepted responsibility for the severance pay benefits accumulated by the Commission employees to March 31, 1999. Accordingly, the opening severance pay liability balance as at April 1, 1999 of $137 was completely offset by a receivable from the Province. There are no terms of repayment for this receivable, and the amount will remain fixed at $137. Any subsequent change in the severance pay liability will be recorded as expense to the Commission. As at March 31, 2000 there was an increase to the liability in the amount of $15. At the end of the fiscal year 1999/2000 the severance pay liability was $152.

11. EMPLOYEE PENSION BENEFITS

Employees of the Commission are eligible for pension benefits in accordance with the provision of The Civil Service Superannuation Act. In accordance with an agreement with the Province of Manitoba, Special Operating Agencies (SOA's) are only responsible for the pension liability incurred for their employees from the date of designation as an SOA. The methodology for calculating the liability was determined in conjunction with the Province, which accepts responsibility for prior service as well as any variance resulting from the calculation. This Policy has led the Commission to record their pension liability as at March 31, 2000 of $75.

A decision has been made that for the time being, SOA's will not be funded/matching employers for their pension obligation. Instead, each SOA will arrange with the Treasury Division the establishment of a separate investment account for pension-related funds. The Commission deposited on a quarterly basis, in this account the estimated amount of the current pension liability as advised by Finance. At the end of each fiscal year, the balance in the investment account will be adjusted to reflect the revised pension liability recorded at that date. The Commission is assuming an 8% interest rate as per the actuarial interest projection provided by Finance.

12. RESERVE FUND

The Commission has established a reserve fund to finance extraordinary expenses for isolated and unanticipated purposes that are regulatory in nature, and for changes in market activity that have an effect on revenues. The intent is to fund the reserve, through an annual charge to retained earnings, over four years, until the fund reaches an accumulated balance of $1 million.

13. LEASE COMMITMENT

The Commission has not entered into a lease agreement with the Province of Manitoba for rental of facilities at 405 Broadway. Occupancy charges for the year ending March 31, 2000 are $113,957.

14. YEAR 2000

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

MANITOBA SECURITIES COMMISSION
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PROVINCE OF MANITOBA

SCHEDULE OF OPERATING EXPENSES
(in thousands)
Year ended March 31, 2000

			%
Contract services	$	240	39
Miscellaneous		44	7
Office materials and supplies		71	11
Premises		116	19
Professional membership and dues		7	1
Professional services		53	9
Staff development		8	1
Telecommunications		44	7
Travel		39	6
	$	622	100

MANITOBA SECURITIES COMMISSION
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SCHEDULE OF PUBLIC SECTOR COMPENSATION DISCLOSURE
(in thousands)
Year ended March 31, 2000

EMPLOYEE	TITLE	COMPENSATION
Don Murray	Chairman & CEO	$ 110
Bob Bouchard	CAO & Director of Capital Markets	86
Doug Brown	Director of Legal & Enforcement & Secretary to the Commission	71
Jim Storsley	Registrar - Real Estate	61
Chris Besko	Assistant Legal Counsel	56
Kim Laycock	Assistant Legal Counsel	55

The Public Sector Compensation Disclosure Act requires all publicly funded bodies to disclose compensation to any employee or board member when such compensation exceeds $50 per annum.

COMMISSION STAFF

Senior Management

Donald G. Murray
Chairman

Bob Bouchard
Director, Capital Markets

Douglas R. Brown
Director, Legal and Enforcement
Counsel & Secretary to the Commission

Jim Storsley
Registrar - Real Estate

Securities Staff

Jan Banasiak	Investigator
Bev Berzuk	Secretary to the Chairman
Chris Besko	Assistant Legal Counsel
Marc Boily	Investigator
Stephie Cole	Registration Clerk
Lorraine Crowter	Accounting Clerk
Ainsley Cunningham	Education and Information Coordinator
Wendy Daniels	Analyst
Sue Henderson	Registration Clerk
John Hudohmet	Controller
Cathy Johnson	Enforcement Secretary
Liz Klippenstein	Legal Secretary
Kelly Laforte	Legal Secretary
Kim Laycock	Assistant Legal Counsel
Caroline Liberty	Registration Assistant
Glenn Lillies	Compliance Auditor
Nancy Martin	Assistant Legal Counsel
Lidiana Medeiros	Administrative Assistant
Sharon Mohammed-Irvine	Corporate Finance Clerk
Cindy Olson	Registration Clerk
Renuka Raviraj	Continuous Disclosure Clerk
Renae Rivest	Receptionist
Jason Roy	Investigator
Isilda Tavares	Registration Officer

Real Estate Staff

Bill Baluk	Auditor/Investigator
Dolores Gozda	Administrative Assistant
Pat Johnston	Administrative Assistant
Chris Kowalski	Deputy Registrar
Shantel Lysak	Real Estate Clerk